

AR59

NII Norsat International Inc.  
1998 Annual Report



N O r s a t<sup>®</sup>









## A New Look For Norsat

*In the fall of 1998, Norsat management restructured and refocused the company. To highlight the positive changes, Norsat updated its corporate identity. Our new symbol,*

*based on the @ sign, reflects the linking role of Norsat's products in satellite and cable communications. The logo represents an orbiting satellite and an arrow suggesting the flow or exchange of data.*

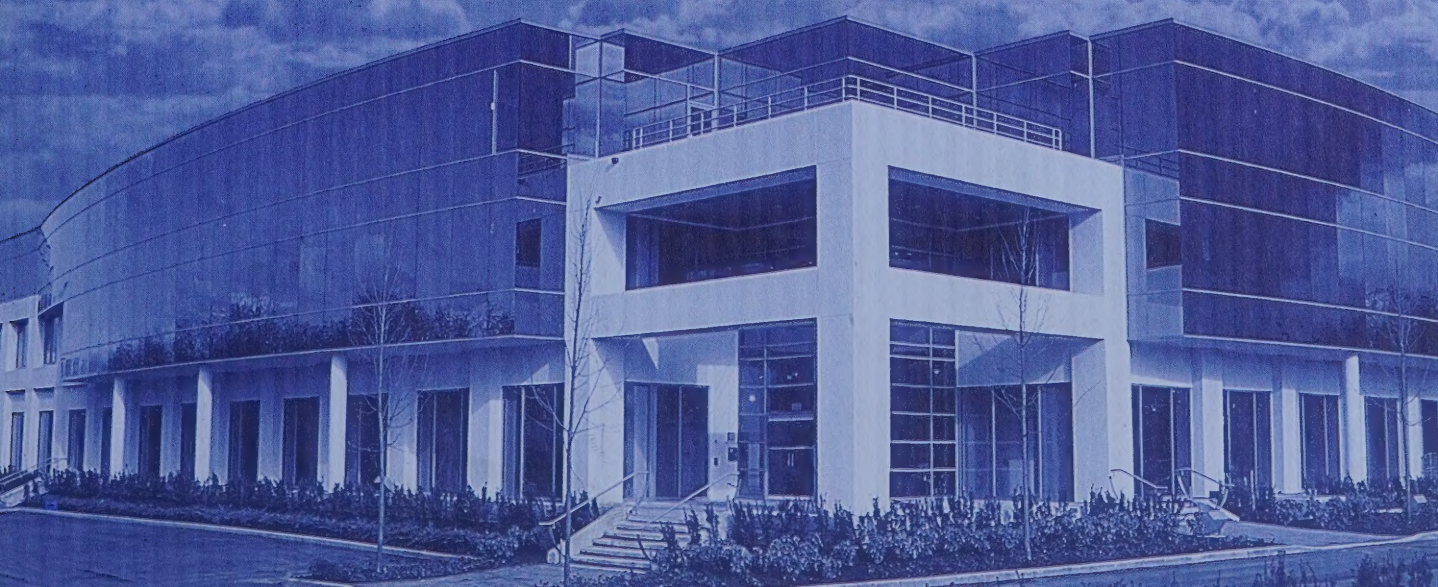
## Our Mission

- To lead in the development of technology and standards for the next generation of satellite communications
- To identify opportunities that will add to our core technology
- To become the global partner of choice for network systems integrators and service providers

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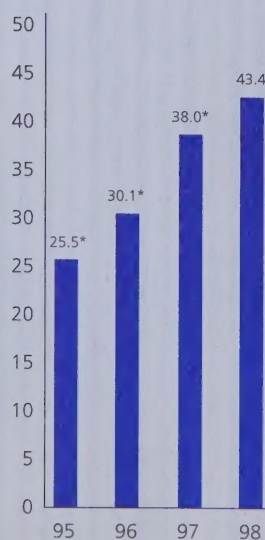
*Norsat's new corporate headquarters in a high tech enclave in suburban Vancouver house state-of-the-art product development and engineering facilities.*



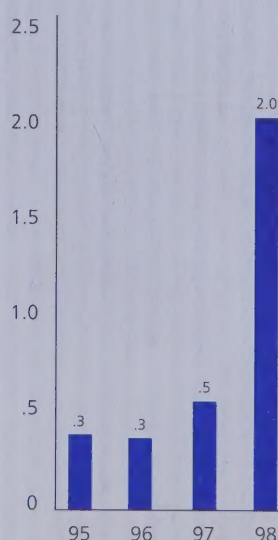


	1998	1997*	1996*	1995*
<b>Financial summary</b> (in thousands of Canadian dollars)				
Sales	<b>\$ 43,411</b>	\$ 38,024	\$ 30,103	\$ 25,547
Earnings (loss) before interest, taxes, depreciation and amortization	<b>(1,821)</b>	81	1,043	(274)
Net earnings (loss)	<b>(1,930)</b>	(710)	2,069	903
Cash generated from (used for) continuing operations	<b>(838)</b>	1,831	2,066	(1,825)
<b>Financial position</b> (in thousands of Canadian dollars)				
Total assets	<b>\$ 35,890</b>	\$ 32,934	\$ 30,596	\$ 27,333
Long-term debt (excluding current portion)	—	—	81	84
Shareholders' equity	<b>21,087</b>	20,669	21,160	20,161
Ratio of debt to equity	<b>0.70</b>	0.59	0.45	0.36
<b>Per common share</b> (Canadian dollars)				
Net earnings (loss) – basic	<b>\$ (0.09)</b>	\$ (0.04)	\$ 0.11	\$ 0.05
Cash generated from (used for) continuing operations	<b>(0.04)</b>	0.09	0.10	(0.10)
Book value	<b>1.01</b>	1.07	1.07	1.02

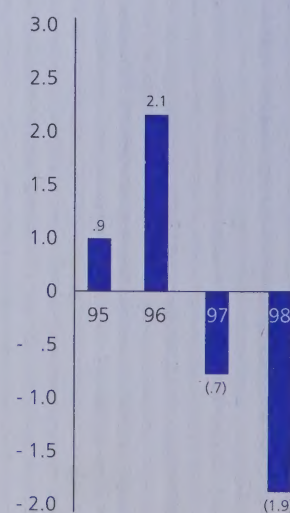
\* restated for discontinued operations adjustment



Annual Sales  
(in millions of dollars)



Product Development Expenditures  
(in millions of dollars)



Net Earnings (loss)  
(in millions of dollars)



*To Our Shareholders: Upon becoming Norsat's new President and CEO in September, I undertook a comprehensive review of the Company's strengths, strategies, and challenges. While our financial results for 1998 were below expectations, as the benefits of a strategic refocusing implemented at the end of the year become evident, I expect stronger performance in the second half of 1999, leading to profitability for the full year.*



Norsat is a company of great promise. In addition to our talented group of employees with a history of technological firsts, there are business opportunities with untapped growth potential. Norsat has a large customer base, strong engineering capabilities, and an excellent reputation as a developer and supplier of high-end ground station receivers. Our strategic relationship with Hughes Electronics' DIRECTV® presents an opportunity to develop distribution channels into the rapidly emerging consumer and commercial markets for satellite services and products. Norsat's position as one of the leading suppliers of cable distribution systems for developing countries has given us a firm foothold in this fast growing market for communications products.

Supporting Norsat's growth prospects are the extraordinary opportunities in satellite communications. Over the past few years, computer and telecommunication advances have opened new markets for the receipt and transmission of audio, video, and information. Satellite communications offer many advantages over land-based alternatives, including capacity, speed, quality, cost and choice, for the delivery of multimedia services to businesses and consumers. The satellite communications industry, including Norsat, is positioned to compete as a source for delivering the new media: computers increasingly networked and in two-way communication; televisions carrying a multitude of entertainment, information, and educational programming; and the convergence of computer, telephone, and television technologies.





***"...direct-to-home  
satellite television  
has been one of the  
fastest growing  
consumer products  
in history..."***

To begin to realize this growth potential, towards the end of 1998, we refocused Norsat into two principal business groups, Satellite & Cable, which includes Norsat's core ground station technologies, global distribution network and cable television scrambling technology, and Norsat America, formerly known as Diamond Pacific, a nationwide Master System Operator and distributor for DIRECTV satellite television.

Building on its engineering and product development skills and close client relationships, the Satellite & Cable group set three growth paths: to increase its presence in ground station equipment beyond receivers (LNBS); to take a leadership role in developing next-generation Ka-band ground station equipment; and to provide complete product solutions for emerging cable markets.

We quickly achieved progress on the first path with the introduction, in January 1999, of a new line of satellite ground station transmitters. The first shipments began in May. The primary commercial market for transmitters is estimated to be about the same size as the receiver market. In March, we announced the integration of Norsat receivers and transmitters into a pre-assembled transceiver.

As we are a single-source supplier of the principal components of the ground station outdoor unit, Norsat is now positioned to explore opportunities to supply the entire outdoor unit in the future. In that regard, we significantly reinforced Norsat's leadership in high-speed satellite communications technology with the acquisition in early 1998 of IMT Communications Systems, a small, highly-regarded developer of satellite and terrestrial microwave products, and a provider of microwave engineering services. Since the acquisition, Norsat has continued to develop Ka-band terminals under contracts from the European and Canadian space agencies. Société Européenne des Satellites (SES), the leading European satellite system (ASTRA) provider for direct-to-home transmission of TV and radio programming, is expected to be the first to use these very high bandwidth (Ka-band) frequencies for two-way digital multimedia communications. SES has said service (ASTRAnet) will be commercially available early in 2000. Others, including Hughes Electronics Corp. Spaceway, Loral Skynet and Teledesic LLC have announced plans for broadband satellite systems.

With its strong base in microwave engineering and technology, Norsat is actively pursuing opportunities to build a leadership position as both a supplier of components and an installer of satellite ground station systems. Entry to this market will be supported by the experience of Norsat America in direct-to-home system sales and installation, and our experience in developing countries such as China and India, where we are a leading supplier of scrambling software and signal distribution components for their fledgling cable television industries.

Industry observers have noted that U.S. direct-to-home satellite television has been one of



the fastest growing consumer products in history with a number of compelling advantages over cable: programming variety, including hundreds of entertainment, sports, movie, and ethnic channels; digital quality, with clarity of picture and sound; costs that reflect the economies inherent in the wireless satellite infrastructure; and customer service shaped by competition rather than regulation. Norsat America, as a leading distributor of satellite television and related entertainment products to retailers, is well-positioned to capitalize on continued growth in consumer demand.

In December 1998, Norsat sold Aurora Distributing, its Canadian distribution subsidiary, in order to redeploy capital and management resources into the U.S. market which is larger, has greater growth potential, is a more favourable regulatory environment, and provides an opportunity to cross-sell selected Satellite & Cable products.

In April 1998, DIRECTV named Norsat America a Master System Operator (MSO) for Multiple Dwelling Units (MDUs), including duplexes, apartments, and townhouse complexes. This market encompasses about one quarter of all households in the United States. United States Satellite Broadcasting (USSB), a supplier of premium movie channels, similarly named Norsat America an MSO later in the year, before the announcement of USSB's proposed acquisition by DIRECTV. Early in 1999, DIRECTV announced plans to buy PrimeStar, a major competitor, making DIRECTV the third largest provider of television programming in the U.S.

During 1998, Norsat America also made excellent progress in recruiting, training, and certifying contractors to serve as System Operators. The System Operators are responsible for securing the "right of entry" from property owners, installing and maintaining the satellite systems, marketing the systems to the households, and providing follow-up services. Norsat America and the System Operators share the recurring revenue stream that results from each new subscription. As the number of System Operators grows, as they complete their training and certification, and commence marketing, we expect the subscriber base to build rapidly.

## Financial Results

Revenues for the year, excluding our discontinued Aurora Distributing operations, were \$43,411,000, up 14 percent from \$38,024,000 in 1997. Results included restructuring costs, including our move to a new headquarters facility, expenses related to executive changes, and the write-off of an Asian investment. Excluding those costs, the net loss from continuing operations was \$1,479,000, or \$0.07 per share, compared with net income of \$1,285,000, or \$0.07 per share, in 1997. Including restructuring costs, continuing operations lost \$3,118,000, or \$0.15 per share, compared with net income of \$888,000, or \$0.05 per share in 1997.

*"...the U.S. market provides an opportunity to cross-sell selected Satellite & Cable products."*



## Conclusion

My first six months as President and CEO of Norsat have been a period of change. As a result, Norsat is a much more focused company, and I am confident in our ability to not only move forward and grow profitably, but to lead in the development of new technology and the opening up of new applications for satellite and cable products.

To that end, I am grateful for the support and counsel provided by The Board of Directors, both those who remain with us, and the new members. Their collective business experience has been, and will continue to be, a significant asset to management as we continue to bring products to market, strengthen and expand our global distribution and customer support network, and enhance shareholder value. I would also like to thank our shareholders and employees for their trust and support during this period of change.

## Management Team

(from left to right)

Edward A. Johnson,  
President, Norsat America Inc.

James E. Nicholson,  
Vice President, Operations

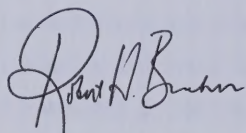
Dale B. Belsher,  
Vice President, Finance  
Chief Financial Officer and  
Corporate Secretary

Wayne E. Meadows  
Vice President, Satellite and Cable Products

Robert H. Bucher  
President and Chief Executive Officer

Lindsay E. Ryerson  
Vice President

Donald D. Filmer  
Vice President, Strategic Development



Robert H. Bucher  
President and Chief Executive Officer  
May 7, 1999





A New Vision





**The key changes at Norsat include:**

- the acquisition of IMT Communications Systems in early 1998
- the appointment of Norsat America Inc. (formerly Diamond Pacific, Inc.) as one of four Master System Operators for DIRECTV in the MDU (Multiple Dwelling Unit) market in the U.S.A.
- the decision to introduce a line of HNBs (High power Norsat Block upconverters) and TNBs (Two-way Norsat Block converters) to complement our line of premium LNBs (Low Noise Block downconverters)
- approval for the use of N-Code II Scrambling System in China's cable television market
- the decision to relocate head office and engineering under one roof in order to better manage R&D and the product delivery process
- the divestiture of Aurora Distributing in December 1998

## **A new profile for an industry pioneer**

### **A new vision for Norsat**

The 1990s were an important period in the history of the satellite industry: DTH (direct-to-home) television gained substantial market share; the private sector assumed a greater role in the deployment and operation of satellites; the convergence of television, the Internet and telephony became an industry priority; the use of mobile hand held devices linked via satellite became commonplace; and substantially lower costs for distribution of data via satellite made it an attractive alternative to wired communications.

As widespread as these changes were, the satellite communications industry is planning for even more growth in the first decade of the new millennium. Significant changes at Norsat have positioned the Company to profit from that growth, and Norsat is poised to build on its traditional role as a pioneer in the development and global distribution of satellite ground station technology for both data and television networks.



## Capitalizing on a wealth of opportunities...



Historically, the Company's business units operated independently. With the recent move into our new head office, our development-engineering, product testing and prototype development facilities are consolidated with marketing and administration. Overlapping functions have been eliminated, the process of bringing new products to market has been streamlined, internal communications have been improved, and overall efficiency has been enhanced.

Our U.S. distribution subsidiary, formerly Diamond Pacific, Inc., operates under the name Norsat America. All Norsat operations around the world now share a common name and a common corporate look, and have a clear understanding of how they fit into Norsat's plans for the present and the future.

*Norsat's future is focused on growth and profitability through the development of advanced wireless communications technology, the expansion of strategic partnerships within the industry, and the aggressive pursuit of new global markets.*

## ...opportunities in satellite components.

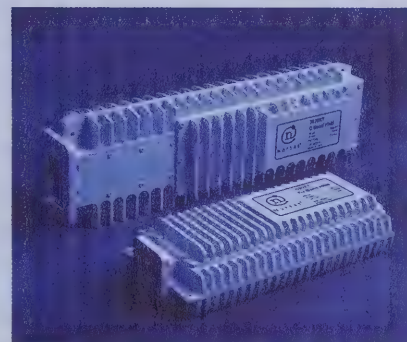
These are Norsat's traditional satellite ground station receivers, and recently introduced transmitters and transceivers. Used in either one- or two-way applications, they provide the primary interface between wired and wireless communications. Marketed from locations around the globe, Norsat components have an international reputation for quality and reliability, backed by a high level of customer service and satisfaction.

Few people are aware of the role Norsat components play in their daily lives. Our receivers can be found in applications ranging from rooftop satellite television dishes, to remote news gathering by television networks, to pay-at-the-pump service, to inventory control by major retailers and many other high-speed data networks.

The new Norsat transmitters and transceivers are destined for use in the new, lower-cost ground station terminals, which have just begun to be deployed and will further extend applications for both the consumer and commercial markets.

The ongoing evolution of two-way communications, and the convergence of voice, data and entertainment services, will require Norsat satellite ground stations to increase in performance and decrease in size.

*The technological expertise gained through the design and engineering of satellite components, and the reputation Norsat has earned for quality and reliability over the past 16 years open up numerous product and service opportunities for the Company.*

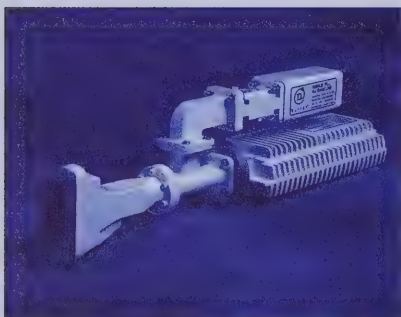


*In January 1999, Norsat introduced a line of C- and Ku-band HNBS (High power Norsat Block upconverters), marking the Company's entry into two-way satellite communications systems.*

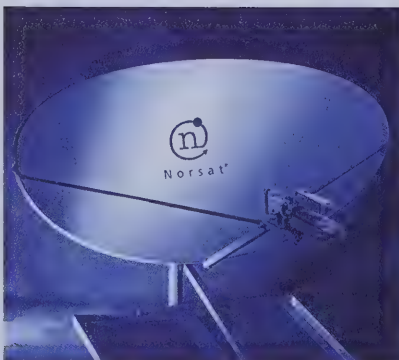


*Norsat satellite components are widely used in pay-at-the-pump and other private data networks to facilitate everything from direct sales, to inventory control, to just-in-time delivery.*





In March 1999, Norsat introduced a line of C- and Ku-band transceivers dubbed TNBs (Two-way Norsat block converters), a critical component for the proliferation of wireless broadband multimedia.



Wireless broadband multimedia will require advanced outdoor unit products. Shown here is a Norsat prototype integrating the antenna, mount and TNB.

### **...opportunities in broadband multimedia and convergence.**

High-speed, two-way digital satellite communications will provide end-users with wireless access to virtually all forms of electronic communications — entertainment, telephony and data — a phenomenon the communications industry has termed convergence. Service will be available through multiple providers, from virtually any location on earth, 24 hours a day.

Scheduled for introduction in Europe, this new service will eventually rely on a new network of satellites operating at very high bandwidth. Initial deployments are set for early 2000. In addition, Norsat is developing ground station transceiver components in conjunction with both the European and Canadian space agencies.

Initially, data provided by the new system will interface with PCs and 'smart' televisions using Internet Protocol. Consumer acceptance of multimedia via satellite will lead to the development of additional electronic devices that integrate a range of functions including everything from video on demand, to video teleconferencing, to telephony applications.

Broadband multimedia will also allow for more powerful, interactive Intranets, for example in applications such as remote medical diagnosis, multicast classroom training, and distributed sales and product demonstrations.

The high-speed satellite network will also facilitate easier access. Users will have the option of reaching their service providers not only from the home and office, but in hotels, in schools and universities, and even from moving vehicles.

The market for broadband multimedia services will be highly-competitive, resulting in extensive freedom of choice for consumers. Initially, network backbones are expected to integrate satellite with fiber and copper, and it is predicted that as hardware and service costs decline, users will prefer the improved quality and greater convenience of wireless over cable.

*There is a need for new wireless communications hardware and software in order to realize the full potential of broadband multimedia and information convergence. Norsat has the expertise to help develop this technology, and the distribution network to introduce it to markets around the world.*

### **...opportunities in Satellite Interactive Terminals.**

As industry and consumers come to expect more from communications technology, new opportunities are created. For Norsat that means the development of consumer-priced Satellite Interactive Terminals (SITs).

Together with our partners, we need to lower the cost of the interface solution in both the outdoor unit, which is Norsat's strength, and in the indoor unit. To facilitate this, the



communications industry has agreed to establish common protocols that will ensure that satellites, ground stations and terminal devices can all communicate.

*With its experience in developing satellite and cable components, its talented engineering staff, and the capabilities of its new world-class engineering facility, Norsat is positioned to lead in the development and deployment of reliable, standards-compliant, cost-efficient SITs.*

### **...opportunities for our coast-to-coast U.S. distribution network.**

Hughes Satellite System's DIRECTV® subsidiary is the largest provider of satellite television programming in the U.S., competing successfully with the major cable system operators. Over 30% of U.S. homes do not have cable, an indicator of the long-term growth potential of the DTH satellite industry. Norsat America sells and installs DIRECTV products in consumer and commercial markets across the U.S. through a coast-to-coast network of 13 branch offices.

**...from single-family and MDU residences.** Norsat America has been a distributor of DIRECTV hardware and programming to the single-family residential market since 1996. In 1998, Norsat America was authorized to sell DIRECTV products to multiple dwelling units (MDU), and its focus is now turning to this market where a single sale can lead to recurring income from a number of new subscribers. A program to recruit and train dealers specifically for the MDU market has been implemented and is beginning to show results.

**...from commercial premises.** Guests of the hospitality industry expect a wide range of entertainment and communications services, including Internet access. Hotels, cruise lines and service establishments have been quick to respond to this opportunity for added revenue. In early 1999 Norsat America was authorized to sell to this market.

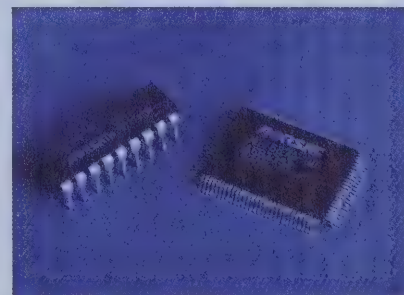
*Evolving technologies and the development of a substantial dealer network create opportunities for distribution of new consumer hardware and software products. Norsat America's objective is to build the Company's recurring revenue flow from pay-per-view and subscription fees.*

### **...opportunities in China and other developing markets.**

China is modernizing. One of its highest priorities is to provide its industry and commerce, as well as its general population, with a modern communications infrastructure. Norsat is the leading supplier of the ground station receiver components used to build China's modern data networks. Our scrambling system products are popular with China's

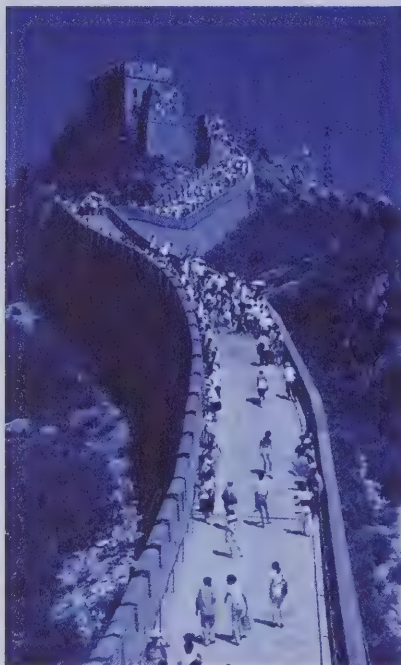


*Norsat's product development laboratories generate advanced microwave prototypes for satellite transceivers.*



*Norsat N-Code II Scrambling System chipsets are manufactured for export to China and other countries where they are used in locally assembled set-top boxes.*





*With the world's largest population and one of the world's least developed data, entertainment and telephony infrastructures, China offers great potential for Norsat satellite and cable products.*

private cable system operators because of their high level of security and reliability and because our descramblers are assembled locally using sub-components supplied by Norsat.

Our recently expanded Beijing office directly supports both commercial satellite component and cable product sales and service.

The same business model will be used to penetrate markets in India and South America.

*It is expected that these emerging markets will create opportunities for strategic partnerships to provide a wide range of satellite communications components and systems. As developing nations lack a modern wired communications network, satellite offers the most cost-effective and most quickly deployed option.*

### **...opportunities in Europe.**

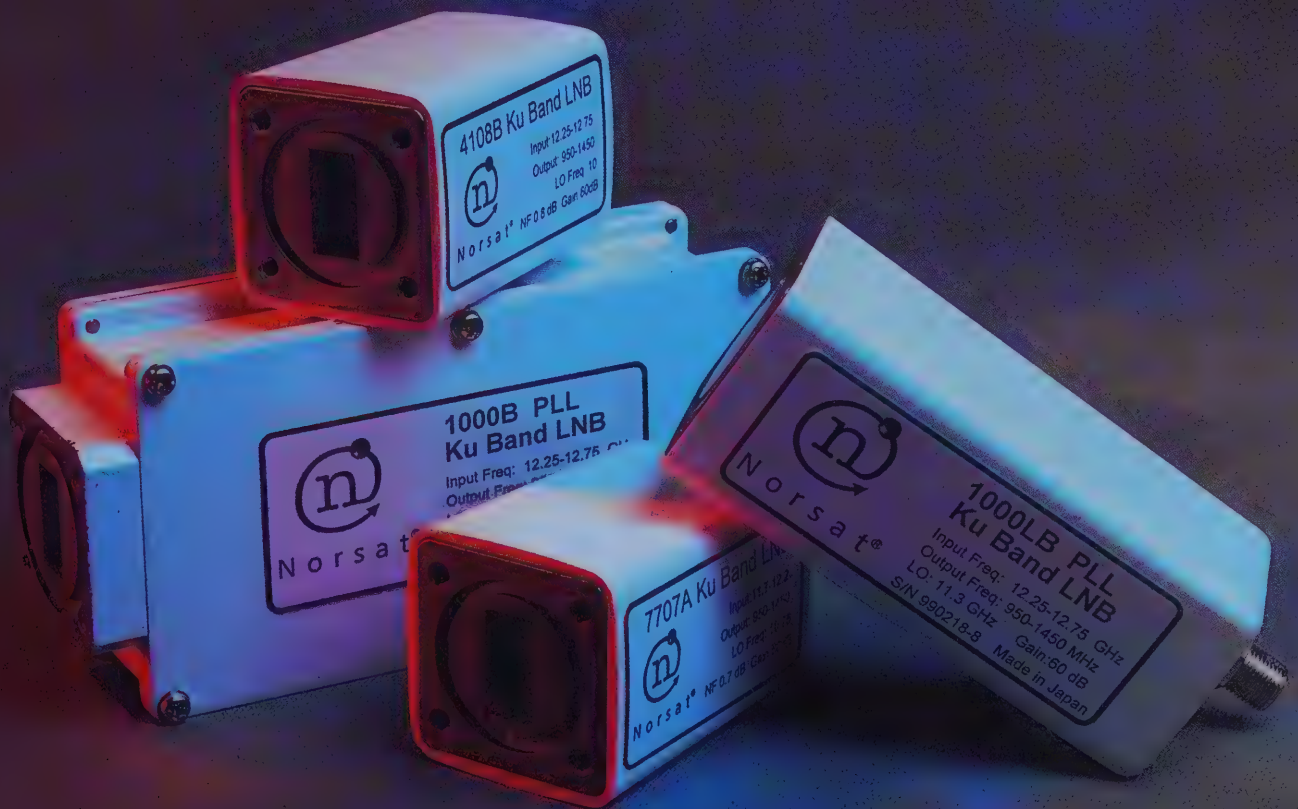
Norsat is already an important supplier of components for Europe's commercial data and television networks and serves this market through a branch office in the U.K. We are also a partner in a number of strategic initiatives undertaken by government and industry to provide Europe with the world's most advanced satellite communications network as an alternative to traditional wired networks which are costly to install and charge high user fees.

The first commercial applications for high-speed satellite communications will come onstream in Europe in early 2000. Norsat expects to provide technology and components for this new system, and to become a primary supplier of Satellite Interactive Terminals.

*A key element of Norsat's strategy for Europe is to develop new wireless technologies which will become the system of choice for global communications markets.*



# Financial Results





## Results of operations

In a year in which the Company made strategic transitional changes to its business model, Norsat reported sales of \$43,410,854 for the year ended December 31, 1998, a 14% increase over the \$38,023,642 the previous year. These figures have been restated to reflect the discontinued operations of Norsat's Canadian consumer satellite equipment division, Aurora Distributing, that was sold effective December 31, 1998. Gross profit increased to \$12,066,248 or 28% of sales versus \$11,352,389 or 30% of sales in 1997.

The Company also recorded a restructuring charge of \$1,639,824 in 1998 consisting of costs associated with: the expenses related to executive changes; the Company's planned move to a new facility that will consolidate the Company under one roof; and the costs associated with an Asian project. Excluding the restructuring costs, earnings before interest, taxes, depreciation and amortization (EBITDA) were a loss of \$181,536 in 1998, compared to earnings of \$2,700,640 in 1997.

Our investment in product development, which is expensed under our accounting policies, impacted costs by \$2,047,390 in 1998, compared to \$521,015 in 1997. This increase is a direct result of the acquisition in March 1998 of IMT Communications Systems Inc., a developer of satellite and terrestrial microwave products and a provider of microwave engineering services. This acquisition was a key strategic transitional change that took place at Norsat in 1998. The resulting net loss for the fiscal year 1998 was \$1,930,384 with basic loss per share of \$0.09, compared to a net loss of \$710,366 and basic loss per share of \$0.04 for the fiscal year 1997.

Critical to Norsat's success are its core ground station technologies, its global distribution network, and its role as a nationwide Master System Operator and distributor for DIRECTV® satellite television in the United States.

Key to the performance of the Satellite & Cable Products division is its large global customer base, its strong engineering support capabilities, and its excellent reputation as a developer and supplier of high-end ground station receivers (LNBs). Sales in this area of the Company have shifted geographically, to the extent that in 1998 over 30% of the division's sales were outside of North America. In order to continue as an industry leader and continue its growth in sales geographically, Norsat established three courses of action: (i) to increase its presence in ground station equipment beyond receivers; (ii) to take a leadership role in developing next-generation Ka-band ground station equipment; and (iii) to provide complete product solutions for emerging cable markets.

Norsat America Inc. (formerly Diamond Pacific, Inc.) recorded a 48% increase in sales in 1998. Now with thirteen branch offices coast-to-coast in the United States, Norsat America has become a nationwide distributor for DIRECTV satellite television. During 1998, Norsat America also made excellent progress in recruiting, training, and certifying contractors to serve as System Operators under its Master Systems Operator (MSO) agreement with DIRECTV for the Multiple Dwelling Units (MDU) market.

Norsat's Canadian consumer satellite equipment division, Aurora Distributing, commenced a new direction in 1998 when it was appointed by Star Choice Communications Inc. to distribute its Canadian-digital satellite system. During the year Aurora became the number one distributor for Star Choice. In December 1998 the Company sold the Aurora division to Star Choice, discontinued its operations and recorded earnings from discontinued operations of \$1,188,089 representing operating income of \$32,990 for the year and a gain on sale of the business of \$1,155,099.



Operating expenses increased to \$15,020,364 in 1998, compared to \$10,241,047 in 1997. The components of the changes in these expenses were:

- Selling, general and administrative expenses increased to \$10,200,394 in 1998 compared to \$8,130,734 in 1997. This was due to increased sales and marketing expenditures in the Satellite & Cable Products division as the Company continued its commitment to maintain and grow its global distribution sales network in order to market its products on a worldwide basis. In Norsat America, sales and marketing costs increased due to the marketing efforts required to become a nationwide DIRECTV® Master System Operator for Multiple Dwelling Units, as well as completing a full year of operation for four new branches opened in 1997. Administrative expenses remained relatively unchanged from the previous year.
- Amortization of capital assets, goodwill and deferred costs were \$1,132,756 in 1998, compared to \$1,191,891 in 1997. This was due to a general reduction in capital expenditures in 1998, offset in part by the capital asset additions that occurred with the acquisition of IMT Communications Systems Inc. The amortization expense also relates to capital expenditures for computer software and equipment required to ensure that the Company's management information systems are Year 2000 compliant.
- Product development and engineering costs increased to \$2,047,390 compared to \$521,015 in 1997. This increase was a result of the acquisition in March 1998 of IMT Communications Systems Inc. and significantly enhances Norsat's ability to maintain a leadership role in the development of high-speed satellite communications technology.
- Restructuring and other costs were \$1,639,824 in 1998 compared to \$397,407 in 1997. Costs in 1998 were primarily related to expenses associated with executive changes, the Company's planned move to a new facility, and the expenses associated with an Asian project. The 1997 costs represent the write-down of an investment in Cyberion Networking Corp.

Income tax expense was \$164,357 in 1998, a decrease from \$223,560 in 1997 and reflects the performance of the Company's foreign subsidiaries.

Earnings from continuing operations, including restructuring costs were a loss of \$3,118,473 or \$0.15 per share in 1998, compared to earnings of \$887,782 or \$0.05 per share in 1997. Earnings from continuing operations before restructuring costs were a loss of \$1,478,649 or \$0.07 per share in 1998 compared to earnings of \$1,285,189 or \$0.07 per share in 1997.

After recording the earnings from discontinued operations of \$1,188,089 in 1998 and a loss of \$1,598,148 in 1997, the net loss for the fiscal year 1998 was \$1,930,384 or \$0.09 per share, compared to a net loss of \$710,366 or \$0.04 per share in 1997.

## **Liquidity and capital resources**

Working capital decreased to \$13,060,159 in 1998, down from \$15,243,951 in 1997. This decrease was mainly due to using \$807,836 of working capital to acquire IMT Communications Systems Inc. and an increase in a long-term receivable on the disposition of Aurora Distributing of \$1,378,842. However, the Company remains in a strong working capital position with a working capital ratio approaching 2:1.



During 1998, the Company acquired all of the issued and outstanding shares of IMT Communications Systems Inc. for consideration equal to the issuance of 1,580,000 common shares of the Company, valued at \$2,532,340. During the year, Norsat acquired 107,448 of its own shares pursuant to a normal course issuer bid for cash consideration of \$248,538. The Company also received \$87,430 through the exercise of options to purchase 55,400 of its common shares. At year end, there were 20,833,362 common shares issued and outstanding.

The Company has an operating line of credit of \$7,500,000 available in the form of overdrafts and letters of credit. The security for the credit facilities consists of a first security interest on all of the Company's personal property, assignment of insurance and inventory. These credit facilities bear interest at the bank prime rate.

The Company's subsidiary, Norsat America Inc., (formerly Diamond Pacific, Inc.), has a revolving line of credit with a U.S. bank for U.S. \$1,500,000. This line of credit is secured by the Company through a U.S. \$1,500,000 standby letter of credit. The line of credit bears interest at the bank's reference rate, as publicly announced from time to time.

## **Year 2000**

The Year 2000 Issue revolves around the fact that many computer systems and software applications have been designed to recognize dates using only the last two digits of a year. It is anticipated that in the year 2000, many systems and programs may be interrupted or halted by this problem. Norsat has completed the process of examining, assessing and implementing solutions to mitigate its risk exposure as it relates to internal systems, products, customers and suppliers.

The Company spent approximately \$250,000 in 1998 to modify its computer information systems enabling proper processing of transactions relating to the Year 2000 and beyond. All product lines have been assessed and corrective action has been completed. All major customers and suppliers have completed a questionnaire to determine their preparedness for the Year 2000 Issue. As Norsat is not single supplier dependent, the Company's supplier risk should not be material.

It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved. The Company continues to evaluate appropriate courses of action, and has developed and is implementing a contingency plan designed to mitigate the effects of the Year 2000 on the Company.

## **Business prospects**

1998 was a transitional year in which Norsat made some key strategic changes: the acquisition of IMT Communications Systems Inc.; the divestiture of Aurora Distributing; the addition of new members to the Board of Directors; and the appointment of a new President & Chief Executive Officer. The Company also completed a thorough review of its corporate strengths and growth opportunities. Although the 1998 financial results were less than satisfactory, management believes Norsat finished the year in a position to capitalize on those opportunities. Norsat's working capital position provides liquidity for the pursuit of new business opportunities and funding required to sustain growth in its existing Satellite & Cable Products division and its U.S. distribution subsidiary. It is expected that in order for Norsat to take full advantage of product and service opportunities generated by the growth in the next-generation Ka-band ground station equipment, the Company will require additional funding.



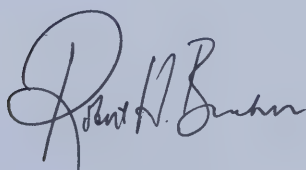
## Management's Responsibility

The consolidated financial statements have been prepared by management, which is responsible for the integrity and objectivity of this information. These statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, include some amounts that are based on management's best estimates and judgements. The financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

A system of internal accounting and administrative controls is maintained by management in order to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records properly maintained to provide accurate and reliable financial statements.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting and internal control. The Audit Committee meets with management and the independent auditors to discuss auditing and financial matters and to review the consolidated financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board for consideration in approving the financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants, who were appointed by the shareholders. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements



Robert H. Bucher  
President and  
Chief Executive Officer



Dale B. Belsher  
Vice President, Finance and  
Chief Financial Officer



## Auditors' Report To The Shareholders

We have audited the consolidated balance sheets of NII Norsat International Inc. as at December 31, 1998 and 1997 and the consolidated statements of operations, retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

KPMG LLP

Chartered Accountants

Surrey, Canada  
February 22, 1999



## Consolidated Balance Sheets

NII Norsat International Inc.

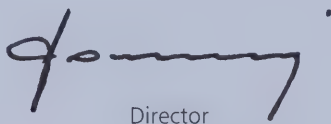
As at December 31,	1998	1997
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,029,777	\$ 9,273,506
Accounts receivable (note 2)	7,324,940	6,540,693
Inventory (note 3)	11,072,325	11,539,954
Prepaid expenses	568,066	155,084
Current portion of receivable on disposition of business (note 9)	1,868,222	—
	27,863,330	27,509,237
Capital assets (note 4)	3,968,891	3,037,798
Other assets (note 5)	4,057,569	2,386,756
	\$ 35,889,790	\$ 32,933,791
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness (note 6)	\$ 7,005,845	\$ 5,400,658
Accounts payable and accrued liabilities	7,797,326	6,788,628
Subordinated debenture	—	76,000
	14,803,171	12,265,286
Shareholders' equity:		
Share capital (note 7)	22,228,677	20,049,532
Retained earnings (deficit)	(1,635,261)	430,914
Cumulative translation adjustment	493,203	188,059
	21,086,619	20,668,505
	\$ 35,889,790	\$ 32,933,791

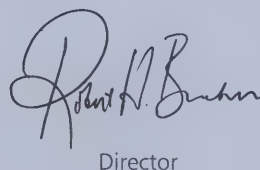
Commitments (note 11)

Contingencies (note 13)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

  
Director

  
Director



## Consolidated Statements Of Operations

NII Norsat International Inc.

<i>Years ended December 31,</i>	<b>1998</b>	<b>1997</b>
Sales	\$ 43,410,854	\$ 38,023,642
Cost of sales	31,344,606	26,671,253
	12,066,248	11,352,389
Expenses:		
Selling, general and administrative	10,200,394	8,130,734
Amortization of capital assets, goodwill and deferred costs	1,132,756	1,191,891
Product development	2,047,390	521,015
Restructuring and other costs	1,639,824	397,407
	15,020,364	10,241,047
Earnings (loss) from continuing operations before income taxes	(2,954,116)	1,111,342
Income taxes - current (note 8)	(164,357)	(223,560)
Earnings (loss) from continuing operations	(3,118,473)	887,782
Earnings (loss) from discontinued operations (note 9)	1,188,089	(1,598,148)
Net loss	\$ (1,930,384)	\$ (710,366)
Net earnings (loss) from continuing operations per share:		
Basic	\$ (0.15)	\$ 0.05
Net loss per share:		
Basic	\$ (0.09)	\$ (0.04)

See accompanying notes to consolidated financial statements.



## Consolidated Statements Of Retained Earnings (Deficit)

NII Norsat International Inc.

<i>Years ended December 31,</i>	<b>1998</b>	<b>1997</b>
Retained earnings, beginning of year	\$ 430,914	\$ 1,599,540
Excess cost on share redemption and cancellation (note 7)	(135,791)	(458,260)
Net loss	(1,930,384)	(710,366)
Retained earnings (deficit), end of year	\$ (1,635,261)	\$ 430,914

*See accompanying notes to consolidated financial statements.*



## Consolidated Statements Of Changes In Financial Position

NII Norsat International Inc.

<i>Years ended December 31,</i>	<b>1998</b>	<b>1997</b>
Cash provided by (used for):		
Operations:		
Earnings (loss) from continuing operations	\$ (3,118,473)	\$ 887,782
Items not involving cash:		
Amortization	1,132,756	1,191,891
Changes in non-cash operating working capital	1,057,243	(717,642)
Other	90,702	469,422
Cash provided by (used for) continuing operations	(837,772)	1,831,453
Earnings (loss) from discontinued operations	1,188,089	(1,598,148)
Items not involving cash:		
Amortization	125,417	164,894
Write-down of goodwill	199,626	228,820
Other	204,560	89,991
Cash provided by (used for) discontinued operations	1,717,692	(1,114,443)
Financing:		
Issue of common shares	87,430	62,500
Repurchase of common shares	(248,538)	(9,110)
Principal payments on long-term debt	—	(8,178)
	(161,108)	45,212
Investments:		
Business acquisition, being net of value of \$2,204,462 assigned to common shares issued (note 14)	(807,836)	—
Purchase of capital assets	(647,720)	(1,424,262)
Increase in deferred costs	(30,673)	(165,890)
Proceeds on sale of capital assets	89,881	—
Purchase of investment	(200,000)	(125,000)
Proceeds on sale of investment	110,000	236,256
Purchase of licensing agreement	—	(500,675)
Increase in receivable on disposition (note 9)	(3,247,064)	—
	(4,733,412)	(1,979,571)
Change in foreign currency denominated cash	165,684	165,145
Decrease in cash position	(3,848,916)	(1,052,204)
Cash position, beginning of year	3,872,848	4,925,052
Cash position, end of year	\$ 23,932	\$ 3,872,848

Cash position is defined as cash and cash equivalents less bank indebtedness.  
See accompanying notes to consolidated financial statements.

## Notes To Consolidated Financial Statements

NII Norsat International Inc.

Years ended December 31, 1998 and 1997

The Company was incorporated October 15, 1982 under the laws of the Province of British Columbia and commenced operations November 1, 1982. The Company provides cable and satellite terminal interface equipment used in the international market place by both the entertainment and wireless communications industries.

### 1. Significant accounting policies:

- (a) Principles of consolidation:  
The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and include the accounts of the Company and its subsidiaries. All subsidiaries are wholly-owned. All material intercompany balances and transactions have been eliminated.
- (b) Cash and cash equivalents:  
Highly liquid securities with original maturities of three months or less when purchased are considered to be cash equivalents.
- (c) Inventory:  
Inventories of distribution products are stated at the lower of weighted average cost and net realizable value. Work in progress is stated at the lower of cost and net realizable value. Parts and supplies inventory is stated at the lower of cost and replacement cost.
- (d) Investments:  
The investments are accounted for by the cost method.
- (e) Capital assets:  
Capital assets are stated at cost. Amortization is provided using the following methods and annual rates which approximate the useful life of the assets:

Asset	Basis	Rate
Equipment and product development equipment	Straight-line	10–20%
Furniture and fixtures	Straight-line	10%

Leasehold improvements are amortized over the shorter of the term of the lease or their estimated useful life.

- (f) Deferred costs:  
Pre-operating branch start-up costs are stated at cost and amortized on a straight-line basis over a three year period from the date the branch commences operations.  
The licensing agreement is stated at cost and amortized based on forecasted sales under the agreement.
- (g) Goodwill:  
Goodwill is amortized on a straight-line basis over an eight to ten year period. Annual assessments are performed to determine whether the net recoverable amount is greater than the carrying value. When the net recoverable amount is less than the carrying value, the excess is charged against income.



## Notes To Consolidated Financial Statements

NII Norsat International Inc.

### 1. Significant accounting policies (continued):

(h) Foreign currency translation:

Foreign currency transactions entered into directly by the Company, as well as the accounts of the integrated foreign operations, are translated using the temporal method. Under this method, monetary assets and liabilities are translated at year end exchange rates and other balance sheet items are translated at historical exchange rates. Income statement items are translated at the rate in effect at the time of the transaction. Translation gains and losses are included in income except for unrealized gains and losses arising from the translation of long-term monetary assets and liabilities which are deferred and amortized over the remaining lives of the related items.

Financial statements of the Company's self-sustaining foreign subsidiary are translated under the current rate method. Under this method, assets and liabilities are translated at the exchange rate in effect as of the balance sheet date and income and expense items are translated at the average exchange rate for the period. Net unrealized exchange adjustments arising on translation of the foreign subsidiary's financial statements are included in shareholder's equity as cumulative translation adjustment. Realized exchange gains or losses are included in income.

(i) Earnings per share:

Basic earnings per share has been calculated based on the weighted average number of shares outstanding (net of shares held in treasury) during the year. Fully diluted earnings per share have not been calculated as the issuance of additional common shares under outstanding options would be anti-dilutive.

(j) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may ultimately differ from these estimates. Significant areas requiring the use of management estimates relate to the determination of net recoverable value of assets, useful lives for depreciation, amortization and provisions for contingencies.

### 2. Accounts receivable:

<i>As at December 31,</i>	<b>1998</b>	<b>1997</b>
Trade	\$ 6,348,313	\$ 5,732,267
Other	976,627	808,426
	<b>\$ 7,324,940</b>	<b>\$ 6,540,693</b>

### 3. Inventory:

<i>As at December 31,</i>	<b>1998</b>	<b>1997</b>
Distribution products	\$ 10,432,422	\$ 10,322,283
Work in progress	39,806	54,214
Parts and supplies	600,097	1,163,457
	<b>\$ 11,072,325</b>	<b>\$ 11,539,954</b>

## Notes To Consolidated Financial Statements

NII Norsat International Inc.

### 4. Capital assets:

<i>As at December 31, 1998</i>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Equipment	\$ 4,475,270	\$ 2,586,861	\$ 1,888,409
Furniture and fixtures	769,646	445,133	324,513
Leasehold improvements	24,411	3,247	21,164
Product development equipment	3,524,613	1,789,808	1,734,805
	<b>\$ 8,793,940</b>	<b>\$ 4,825,049</b>	<b>\$ 3,968,891</b>

<i>As at December 31, 1997</i>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Equipment	\$ 4,325,601	\$ 2,304,479	\$ 2,021,122
Furniture and fixtures	807,105	449,131	357,974
Leasehold improvements	846,652	558,209	288,443
Product development equipment	1,736,548	1,366,289	370,259
	<b>\$ 7,715,906</b>	<b>\$ 4,678,108</b>	<b>\$ 3,037,798</b>

### 5. Other assets:

<i>As at December 31,</i>	<b>1998</b>	<b>1997</b>
Receivable on disposition of business (note 9)	\$ 1,378,842	\$ —
Investments	476,522	401,522
Pre-operating costs, net of accumulated amortization	138,935	190,107
Licensing agreement, net of accumulated amortization	470,015	500,675
Goodwill, net of accumulated amortization of \$1,198,724 (1997 - \$1,143,921)	1,593,255	1,294,452
	<b>\$ 4,057,569</b>	<b>\$ 2,386,756</b>

- (a) During 1998, the Company purchased a \$200,000 convertible debenture in Cyberion Networking Corp. ("Cyberion"). The principal amount is due on demand or can be converted, at the option of the Company, into common shares of Cyberion at a rate of Cdn. \$0.2632 per share, up to a maximum of 760,000 shares. After the first anniversary of the debenture, the debenture is no longer convertible. Interest on the debenture is calculated at the bank's prime rate and payable semi-annually. This amount together with the investment in shares of Cyberion is shown above as investments (1997 includes \$125,000 investment in Pan Pacific Aviation Limited Partnership).

The Company has provided a guarantee of \$250,000 to help Cyberion secure financing.

- (b) During 1997, the Company entered into a licensing agreement for cash consideration of \$500,675. Beginning January 1, 1998, minimum annual royalties of U.S. \$150,000 (Cdn. \$230,000) are payable until December 31, 2000. Beginning January 1, 2001, annual minimum royalties become U.S. \$300,000 (Cdn. \$460,000). The Company has the option, exercisable on or before June 30, 2000, to purchase the licensed technology for U.S. \$1,600,000 (Cdn. \$2,450,000) and cease paying royalties. The Company is entitled to terminate the agreement upon six months notice after December 31, 1999.



## Notes To Consolidated Financial Statements

NII Norsat International Inc.

### 6. Bank indebtedness:

The Company has an operating line of credit of \$7,500,000 available in the form of overdrafts and letters of credit. The security for the credit facilities consists of a first security interest on all of the Company's personal property, assignment of insurance and inventory. These credit facilities bear interest at the bank's prime rate.

The Company's subsidiary, Norsat America Inc., (formerly Diamond Pacific, Inc.), has a revolving line of credit with a U.S. bank for U.S. \$1,500,000. This line of credit is secured by the Company through a U.S. \$1,500,000 standby letter of credit. The line of credit bears interest at the bank's reference rate, as publicly announced from time to time.

### 7. Share capital:

The Company is authorized to issue 50,000,000 common shares without par value.

Common shares issued and fully paid:

	Number of Shares	Amount
Balance at December 31, 1996	19,753,410	\$ 19,537,882
Upon exercise of stock options (note 7(b))	39,000	62,500
Shares cancelled during the year (note 7(a))	(481,900)	458,260
Shares purchased during the year and not cancelled (note 7(c))	—	(9,110)
Balance at December 31, 1997	19,310,510	20,049,532
Upon acquisition of IMT Communications Systems Inc. (note 14)	1,580,000	2,204,462
Upon exercise of stock options (note 7(e))	55,400	87,430
Shares cancelled during the year (note 7(c))	(5,100)	3,588
Shares purchased and cancelled during the year (note 7(f))	(107,448)	(116,335)
Balance at December 31, 1998	20,833,362	\$ 22,228,677

At December 31, 1998, the Company held Nil (1997 – 5,100) common shares in treasury.

- From June 18, 1996 to December 17, 1996, the Company acquired 481,900 of its own shares pursuant to a normal course issuer bid for cash consideration of \$1,112,840. The purchase price exceeded the Company's average issue price by \$458,260 which was charged to retained earnings during the year when the shares were cancelled in 1997.
- During the year ended December 31, 1997, the Company issued 39,000 common shares upon exercise of stock options granted.
- During the year ended December 31, 1997, the Company acquired 5,100 of its own shares pursuant to a normal course issuer bid for cash consideration of \$9,110. The purchase price exceeded the Company's average issue price by \$3,588 which was charged to retained earnings during 1998 when the shares were cancelled in 1998.
- During the year ended December 31, 1997, the Company granted to an employee an option entitling him to purchase up to 20,000 common shares of the Company. The option is exercisable at \$2 per share on or before January 17, 2002.
- During the year ended December 31, 1998, the Company issued 55,400 common shares upon exercise of stock options granted.

## Notes To Consolidated Financial Statements

NII Norsat International Inc.

### 7. Share capital (continued):

- (f) During the year ended December 31, 1998, the Company acquired and cancelled 107,448 of its own shares pursuant to a normal course issuer bid for cash consideration of \$248,538. The purchase price exceeded the Company's average issue price by \$132,203 which was charged to retained earnings.
- (g) During the year ended December 31, 1998, the Company granted to certain of its directors, officers and employees options entitling them to purchase up to 1,502,000 common shares of the Company. The options are exercisable at prices between \$1.50 and \$3.00 per share on or before various expiration dates ranging from June 18, 2003 to September 25, 2003.
- (h) At December 31, 1998, 1,777,000 (1997 – 1,189,295) stock options were outstanding. During 1998, 858,895 (1997 – 215,000) stock options expired or were cancelled without being exercised.

### 8. Income taxes:

- (a) Loss carryforwards and investment tax credits:

At December 31, 1998, the Company has available non-capital loss carryforwards to reduce future years' income for Canadian income tax purposes expiring as follows.

2000	\$ 1,400,000
2001	200,000
2002	—
2003	—
2004	100,000
2005	200,000
2006	200,000
	<hr/>
	\$ 2,100,000

The Company also has available \$650,000 (1997 – \$650,000) of net capital losses for an indefinite carry-forward period to be applied against future capital gains. The tax effect of these carryforwards has not been recorded in the financial statements. In addition, the Company has accumulated scientific research and development expenses that are available for indefinite carryforward as discretionary deductions of \$4,500,000 (1997 – \$4,400,000).

Also, the Company has investment tax credits available to reduce taxes payable of \$1,109,000. The investment tax credits expire as follows:

1999	\$ 63,000
2000	175,000
2001	152,000
2002	253,000
2003	102,000
2004	151,000
2005	8,000
2006	19,000
2007	98,000
2008	88,000
	<hr/>
	\$ 1,109,000



## Notes To Consolidated Financial Statements

NII Norsat International Inc.

### 8. Income taxes (continued):

(b) Income tax expense:

The Company's income taxes and effective income tax rates pertaining to the operations were as follows:

<i>Years ended December 31,</i>	<b>1998</b>	<b>1997</b>
Earnings (loss) from continuing operations and before income taxes	\$ (2,954,116)	\$ 1,111,342
The income tax expense differs from the expected expense if Canadian statutory rates were applied to the earnings before income taxes. The principal factors causing these differences are shown below:		
Income tax expense (recovery) at expected rate of 45.5%	(1,344,000)	505,000
Non-allowable (non-taxable) expenses or income	68,000	(12,400)
Recognition of benefits from previously unrecognized loss carryforwards	—	(469,000)
Timing differences, including amortization, research and development costs and other	1,100,000	199,960
Unrecognized loss carry forwards	340,357	—
Income tax expense	\$ 164,357	\$ 223,560

In view of the available loss carryforwards no provision for income taxes has been made for such taxes on the gain from discontinued operations.

### 9. Discontinued operations:

- (a) In December 1997, the Company adopted a formal plan to discontinue the business operations of its programming divisions and on December 17, 1997, it discontinued offering programming services to its customers. As part of its plan to discontinue these operations, the Company completed the disposition of remaining assets and discharged its liabilities in March 1998.

For the period from January 1, 1997 to December 17, 1997, the Company's programming divisions recorded operating income of \$56,229 and net revenues of \$6,770,906. The loss from discontinued operations in 1997 was \$1,726,434.

- (b) On December 31, 1998, the Company sold the business operations of its Aurora Distributing division. The Company recorded earnings from discontinued operations of \$1,188,089 representing operating income of \$32,990 (1997 – \$128,286) and a gain on sale of \$1,155,099. In the year ended December 31, 1998, net revenue to the division was \$16,976,540 (1997 – \$14,928,039).

As at December 31, 1998 the receivable for disposition of the business was as follows:

Receivable on disposition of business	\$ 3,247,064
Less current portion	1,868,222
	\$1,378,842

## Notes To Consolidated Financial Statements

NII Norsat International Inc.

### 10. Other information:

The following table shows the operations by geographic segment:

<b>1998</b>	Canada	United States	Europe and other	Consolidated
Sales to external customers	\$ 14,974,844	\$ 25,704,114	\$ 2,731,896	\$ 43,410,854
Earnings (loss) from continuing operations before income taxes	\$ (3,125,898)	\$ (545,452)	\$ 717,234	\$ (2,954,116)
Amortization	\$ 779,572	\$ 341,334	\$ 11,850	\$ 1,132,756
Income tax expense	\$ —	\$ —	\$ 164,357	\$ 164,357
Capital asset additions	\$ 442,385	\$ 183,289	\$ 22,046	\$ 647,720
Identifiable assets	\$ 24,251,569	\$ 9,474,155	\$ 2,164,066	\$ 35,889,790
<b>1997 (re-stated)</b>	Canada	United States	Europe and other	Consolidated
Sales to external customers	\$ 18,084,142	\$ 17,292,515	\$ 2,646,985	\$ 38,023,642
Earnings (loss) from continuing operations before income taxes	\$ 720,121	\$ (255,068)	\$ 646,289	\$ 1,111,342
Amortization	\$ 595,788	\$ 588,152	\$ 7,951	\$ 1,191,891
Income tax expense	\$ —	\$ —	\$ 223,560	\$ 223,560
Capital asset additions	\$ 1,297,703	\$ 114,814	\$ 11,745	\$ 1,424,262
Identifiable assets	\$ 23,899,687	\$ 7,609,275	\$ 1,424,829	\$ 39,933,791

### 11. Commitments:

Future minimum payments at December 31, 1998 under various operating lease agreements for each of the next five fiscal years are approximately as follows:

1999	\$ 1,176,000
2000	1,161,000
2001	1,082,000
2002	920,000
2003	900,000



## Notes To Consolidated Financial Statements

NII Norsat International Inc.

### 12. Financial instruments:

(a) Fair value:

The Company's financial instruments, including cash equivalents, accounts receivable, receivable on disposition of business, bank indebtedness and accounts payable and accrued liabilities, approximate their carrying amounts due to their immediate or short-term to maturity or their ability for liquidation at comparable amounts.

(b) Concentration of credit risk:

The Company's revenues are dependent on customers in the satellite communication and home entertainment industries. As these customers are geographically dispersed, concentration of credit risk is considered to be minimal.

### 13. Contingency:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. The Company has developed and is implementing a process designed to mitigate the effects of the Year 2000 on the Company. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

### 14. Business acquisition:

During 1998, the Company acquired all of the issued and outstanding share capital of IMT Communications Systems Inc. ("IMT") for consideration equal to the issuance of 1,580,000 common shares of the Company. Of the shares issued, 580,000 common shares are subject to an escrow agreement which acquires certain contracts be granted to IMT within a two year period or these shares will return to the Company. At December 31, 1998, the Company did not have reasonable assurance that 203,650 of the shares held in escrow would be released and accordingly \$327,878 has not been included as a cost of the acquisition. These shares will be recorded when the contingency is recorded. The fair value of the shares is derived from their quoted market value at the date of acquisition less adjustment to reflect quantities traded and price fluctuations.

The acquisition has been accounted for by the purchase method with the results of IMT's operations consolidated from March 31, 1998, the effective date of acquisition. The fair values assigned to the assets acquired and liabilities assumed were as follows:

## Notes To Consolidated Financial Statements

NII Norsat International Inc.

### 14. Business acquisition (continued):

Assets acquired:	
Accounts receivable	\$ 1,245,966
Income taxes recoverable	524,064
Prepaid expenses	7,875
Capital assets	1,599,361
Goodwill	704,152
	<hr/>
	4,081,418
Liabilities assumed:	
Bank indebtedness	(807,836)
Accounts payable and accrued liabilities	(1,063,220)
Deferred income tax payable	(5,900)
	<hr/>
Net assets acquired	\$ 2,204,462

### 15. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 1998.



## NII Norsat International Inc.

	1998	1997*	1996*	1995*	1994*
<b>Operating results (\$000)</b>					
Sales	43,411	38,024	30,103	25,547	25,051
Earnings (loss) before interest, taxes depreciation and amortization	(1,821)	81	1,043	(274)	432
Net earnings (loss)	(1,930)	(710)	2,069	903	818
<b>Balance sheet (\$000)</b>					
Working capital	13,060	15,244	15,651	14,406	8,893
Capital assets – net	3,969	3,038	2,424	2,415	2,360
Total assets	35,890	32,934	30,596	27,333	17,957
Long-term debt (excluding current portion)	—	—	81	84	3,021
Shareholders' equity	21,087	20,669	21,160	20,161	9,948
<b>Changes in financial position (\$000)</b>					
Cash generated from (used for) continuing operations	(838)	1,831	2,066	(1,825)	(3,573)
Capital assets expenditures	648	1,424	572	558	514
Acquisitions of businesses	3,012	—	—	1,655	2,321
Equity issued	2,292	63	20	9,310	2,982
<b>Per share (\$)</b>					
Net income (loss) – basic	(0.09)	(0.04)	0.11	0.05	0.06
Cash generated from (used for) continuing operations	(0.04)	0.09	0.10	(0.10)	(0.26)
Book value	1.01	1.07	1.07	1.02	0.66
TSE/NASDAQ share price – high	2.86	3.15	4.00	6.00	2.34
– low	1.00	1.50	1.80	1.40	1.35
<b>Financial ratios</b>					
Current ratio	1.88	2.24	2.67	3.03	2.78
Inventory turnover (average)	2.96	2.96	3.36	3.92	4.89
Debt/equity	0.70	0.59	0.45	0.36	0.81
Net earnings (loss)/sales (%)	-4%	-2%	7%	4%	3%
Return on equity	N/A	N/A	0.10	0.06	0.09
<b>Additional information</b>					
Product development expenditures (\$000)	2,047	521	343	347	533
Sales per employee	331	340	350	323	418
Shares outstanding (000's)	20,833	19,311	19,753	19,736	15,022
Number of employees (average)	131	112	86	79	60

\* restated for discontinued operations adjustment

## Directors

### G. Bradford Cook

Chairman of the Board;  
Attorney, Former Chairman,  
U.S. Securities and Exchange Commission

### Robert H. Bucher

President & Chief Executive Officer

### Ugo A. Doninelli

General Manager & Chief Executive Officer  
Prismafin S.A., Chiasso, Switzerland

### Dr. John S. MacDonald

Former Chairman,  
MacDonald Dettwiler and Associates Ltd.

### Dr. Moe A. Barakat

President,  
InfoMagnetics Technologies Corporation

### Ross S. Smith

Former managing partner,  
KPMG

### Chris Theodoropoulos

Barrister and Solicitor

## Officers

### Robert H. Bucher

President & Chief Executive Officer

### Dale B. Belsher

Vice President, Finance;  
Chief Financial Officer &  
Corporate Secretary

### James E. Nicholson

Vice President, Operations

### Donald D. Filmer

Vice President, Strategic Development

### Wayne E. Meadows

Vice President,  
Satellite and Cable Products

### Lindsay E. Ryerson

Vice President

## Subsidiary Company Officers

### Edward A. Johnson

President, Norsat America Inc.

## Transfer Agent

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## Investor Information

### Investor Relations

Norsat is committed to providing the investing community with ongoing information about its financial results and operational achievements. If you would like to be placed on our paper or electronic mailing lists or if you require an update, please contact Derick Walker:

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**E-mail:** [info@norsat.com](mailto:info@norsat.com)

Copies of news releases, newsletters and other pertinent information can be found on our Web site: [www.norsat.com](http://www.norsat.com).

### Annual General Meeting

NII Norsat International Inc.'s annual general meeting will be held on Wednesday, June 9, 1999 at the Hyatt Regency Vancouver, Grouse Room at 10:30 a.m.

### Cautionary Statement Concerning Forward-looking Information

This document may contain certain forward-looking information and statements concerning the Company's operations, performance and financial condition, including, in particular, the likelihood of the Company's success in developing and expanding its business. These statements are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Company. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ include, but are not limited to: the success of the multiple dwelling unit market in the U.S.; the expansion of satellite communications systems worldwide; the implementation of Ka-band satellite networks; and political and other risks associated with conducting business offshore.









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